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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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U.S. Export Performance Improves . . .

The United States' trade deficit jumped during the last month of 1980 as oil imports surged. In December, oil imports were 22.6 per cent higher than in November. This resulted in a trade deficit (on the census basis) of \$2.98 billion after a deficit of \$1.66 billion in November. In spite of the rise in the December deficit, the trade account for the year 1980 as a whole showed a substantial improvement over 1979. Based on preliminary figures for December, the 1980 trade deficit was \$32 billion after a \$37 billion deficit the year before. For the year 1980, merchandise exports were \$221 billion, up 21.4 per cent from 1979, while imports increased 15.5 per cent to \$253 billion. If the approximately \$74 billion worth of petroleum imports into the United States in 1980 were omitted, then the trade balance would have been in substantial surplus.

Exports continued to show broad-based strength last year in spite of lower growth or incipient recession among our major trading partners. Shipments of agricultural products overseas, particularly wheat and soybeans, increased 5.1 per cent over an already strong November level. Exports of manufactured goods overall rose a very modest 0.1 per cent after declining 2.9 per cent in the prior month, but aircraft sales rose substantially as did exports of crude materials and chemicals.

The excellent export performance of the United States in 1980 reflected slow growth in the United States which led businessmen to increase exports at a time when the economies of many of our trading partners were still expanding. Further, because U.S. exports include large agricultural and capital goods components, they benefited from the overall strength of the dollar during most of 1980. Many large capital export items (e.g. aircraft and computers) are ordered years before delivery, hence a strengthening currency increases the value of exports relative to imports which are purchased with currencies that are cheaper in terms of dollars.

With regard to the \$32 billion trade deficit for 1980, it should also be noted that reporting on the revised census basis (which includes imports on a c.i.f.

basis) tends to overstate the actual trade deficit. For example, if the insurance and freight component of import costs is removed, the 1980 trade deficit is only \$20.5 billion. The use of imports on a c.i.f. basis is to conform to an international agreement to ensure comparability with other trading nations.

The outlook for U.S. exports in 1981 is for no further improvement—indeed, the trade deficit may widen. Most of our major trading partners anticipate either recessions or at best lower growth in 1981, discouraging imports. A substantial portion of U.S. exports in 1980 resulted from agricultural production shortfalls elsewhere in the world, which may or may not recur in 1981. Further, the absorptive capacity of the OPEC countries for imports is growing less rapidly. Even though the slow growth expected for the U.S. economy this year may discourage imports, the dollar is expected to remain relatively strong against most foreign currencies at least during the early part of 1981. This might offset downward pressures on imports—while cutting back exports due to their relatively high price.

. . . German Export Growth Slows . . .

While exports have been rising faster than imports in percentage terms in the United States, the opposite is true in West Germany. With the value of exports equivalent to over 25 per cent of West German GNP in recent years compared with just over eight per cent for the U.S., a slowdown in the growth of German exports has a profound effect on that country's economic growth. This calls into question the "locomotive" theory of world economic recovery. The idea behind this theory is that by stimulating strong domestic growth, powerful economies such as West Germany, the United States or Japan would increase imports, thereby inducing growth in weaker countries. This theory has run aground on the shoals of rising German inflation which resulted in low growth anti-inflationary government policies and a weakening currency which have made imports, particularly oil, more expensive. A huge current account deficit has increased pressure on producers to increase exports of goods and services and has discouraged increasing



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imports. Thus, remedial domestic policies are directly opposite to those which a locomotive policy would call for.

Although West Germany generated a \$4.8 billion trade surplus last year, it was only about 37 per cent of the 1979 trade surplus of \$13 billion. The monthly trade statistics fluctuated widely throughout the year, ranging from a trade surplus of \$1 billion in March to an August trade deficit of \$74 million.

West German exports rose 11 per cent in 1980 while imports rose 17 per cent, largely due to increased

energy import prices. The slowing of export growth in Germany is attributable to a general weakening of world trade but particularly to lower growth in Western Europe which takes almost two-thirds of German exports. But in many products including automobiles, chemicals, electronics and other high technology items, the Germans are also beginning to feel the impact of intensive Japanese competition in their traditional markets.

... As Japan's Exports Boom

Based on preliminary figures, it appears that Japan ended 1980 with a trade surplus of \$2.1 billion. This followed a \$1.2 billion surplus on trade in Decem-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/28/81	\$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	125.727	- 2.979	- .942
Loans to Depository Inst.	1.793	+ .374	- .026
Float	3.390	- .260	- .224
Total Reserve Bank Credit	140.346	- 2.656	+ 4.575
Treasury Deposits with			
Federal Reserve Banks	3.498	+ .389	+ .459
Currency Outside Banks	116.930	- 1.115	+ 8.145
Member Bank Reserves:			
Required	40.651	- 1.529	- 3.798
Excess (Deficiency)	.557	+ .050	+ .314
Total Reserves Held	41.208	- 1.479	- 3.484
Net Borrowed Reserves	1.099	+ .310	+ .390
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.027	+ .507	+11.228
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregate†			
M-1A	367.3	- 13.5‡	+ 0.7‡
M-1B	413.4	+ 4.0‡	+ 7.2‡
M-2 (December '80)	1,674.6	+ 7.3	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 2/6/81			
\$ U.S. Treasury Bills	15.00%	14.13%	12.96%
* Federal Agencies	15.07	15.33	14.76
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	12.41	13.15
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.40	15.95	
\$ Finance Company Paper—Prime			
5- 14 days	15.50%	Mar.	16.35%
15- 29 days	16.13	Apr.	15.95
30- 59 days	16.00	May	15.65
60-179 days	15.50	Jun.	15.50
180-270 days	14.25	Jul.	15.15
		Aug.	14.85
\$ Industrial Paper—Prime			
30- 89 days	16.38%	† Federal Funds	
90-120 days	15.50	Effective Rate	16.90%
\$ Discount basis.			
* Subject to availability.			
† Estimated.			

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80 \$ 2,741	\$ 2,637	\$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80 \$ 1,490	\$ 1,472	\$ 1,491
Percent Change, Annual Rate	4th Q'80 5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80 13.2%	12.0%	14.4%
Change in Producer Prices*	Dec '80 7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons)†	Jan '81n 97,696	97,700	97,708
Unemployment as % of Civilian Labor Force†	Jan '81n 7.4%	7.4%	6.2%
Personal Income*	Dec '80 \$ 2,282	\$ 2,260	\$ 2,052
Leading Indicators Composite Index (1967=100)†	Dec '80 136.6	137.7	135.2
Industrial Production Index (1967=100)†	Dec '80 150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Nov '80 \$ 0.84	\$ 0.70	\$ 2.69
U.S. Merchandise Trade Balance†	Dec '80n -\$ 2.06	-\$ 0.79	-\$ 2.87
Plant and Equipment Expenditures*	1st Q'81 \$310.59(a)	\$297.30(a)	\$291.89
Private Housing Starts (Thousands of Units)*	Dec '80 1,548	1,563	1,548
New Construction Expenditures*	Dec '80n \$ 241.6	\$ 231.6	\$ 244.0
Total Business Inventories†	Nov '80 \$ 458.2	\$ 456.5	\$ 426.0
Total Business Sales†	Nov '80 \$ 329.1	\$ 325.8	\$ 298.9

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

ber and a \$763 million surplus in November—the highest for any month in 1980. The 1980 trade surplus was 14 per cent above the surplus for 1979 but considerably below the 1978 surplus of \$25.3 billion. This sharp erosion in the trade balance has resulted largely from skyrocketing energy import costs to which the Japanese economy is extraordinarily sensitive.

Between December, 1979 and October, 1980, Japanese export volume grew at double-digit rates. In October, export volume was 20 per cent above the same month the year before. Again, however, as with United States' exports, a darker picture for

worldwide economic growth is expected to rub some of the glitter off of Japanese export performance in the near future. Further, a strong yen, which raises the cost of Japanese exports to the buyer, and growing resistance to market penetration by Japanese exports to the United States and Western Europe will also serve to slow their growth. Finally, Japanese economists expect a resurgence of domestic demand as the economy grows at an expected 4.5 to five per cent rate in 1981. This will reduce export pressure to some degree. **H**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (1/21/81)	109,671	+ 1,697	+23,499
New York City (1/21/81)	29,343	+ 466	+ 9,479
Commercial Paper (1/21/81)	129,701	+ 1,215	+12,204

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/21/81)	163,133	- 1,111	+12,835
New York City (1/21/81)	51,082	- 470	+ 4,196
Total Loans Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/21/81)	402,559	- 452	+27,705
New York City (1/21/81)	101,360	- 849	+13,871

Financial Markets

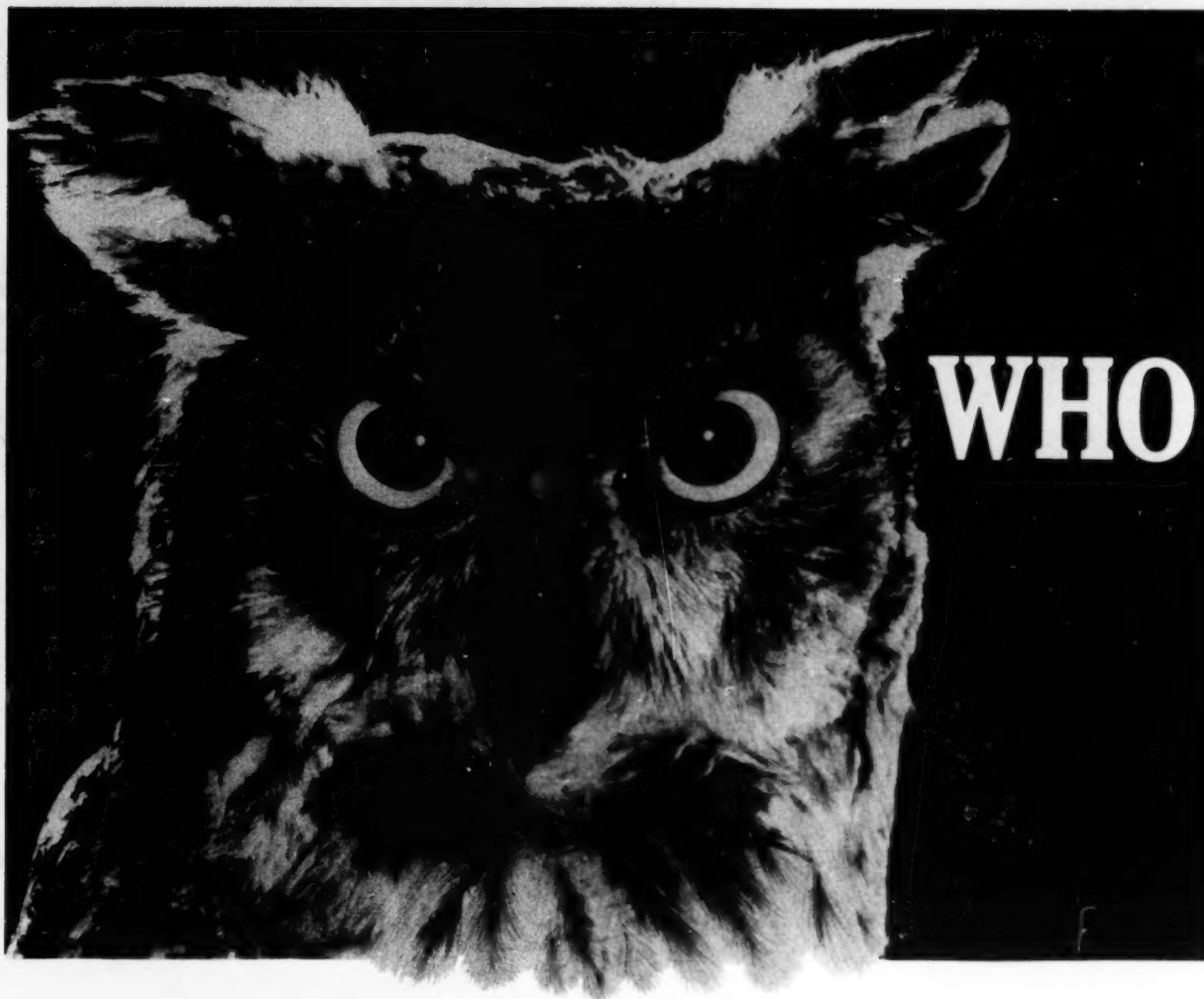
	Friday 2/6/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	16.10%	+ 1.55	+ 3.50
180-Day Billst	15.50	+ 1.92	+ 2.56
Longest Billst	14.55	+ 2.07	+ 1.74
Recent Issues:			
13 ⁵ / ₈ s 1/31/82 (When Issued)	13.85	NA	
13 ¹ / ₄ s 8/15/83 (When Issued)	13.50	NA	
13s 11/15/90	13.12	+ .52	
12 ³ / ₄ s 11/15/10	12.75	+ .52	
Municipals:			
Bond Buyer—20 Bond Index* (2/5/81)	9.90%	- .01	+ 2.19
Blue List Total (\$ Million)	\$ 607	- \$ 23	- \$ 164
30-Day Visible Supply (\$ Million)	\$2,318	+ \$622	+ \$1,245
Total	\$2,925	+ \$599	+ \$1,081
Corporates:			
Moody's Aa Composite (2/5/81)	13.72%	+ .08	+ 1.44
Money Mgr.—30-Day Supply (\$ Million)	\$3,943	+ \$230	+ \$2,511
Stocks:			
Dow-Jones Averages:			
Industrials	952.30	+ 5.03	+ 56.65
Transportation	408.64	+ 6.48	+ 102.84
Utilities	112.20	- .62	+ .87
65 Stocks	373.01	+ 2.65	+ 43.42
Standard and Poor's 500 Stocks	130.60	+ 1.05	+ 12.65
N.Y.S.E. Composite Index	74.83	+ .56	+ 7.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,384	+ 6,562	- 5,160

International Rates

	Friday 2/6/81	Week Ago
EURODOLLAR		
DEPOSIT RATES (bid)		
Overnight	17.25%	17.50%
1 month	17.56	17.63
3 month	17.44	17.38
6 month	16.88	16.63
1 year	15.81	15.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.20%	12.95%
Long Term (7 to 15 yrs.)	13.05	12.85
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(2/6/81)	Equivalent	Per U.S. \$
Belgium	.02909	34.38
Canada	.5026	1.9898
Denmark	.1520	6.5800
France	.2026	4.9350
Germany	.4684	2.1440
Italy	.0009794	1021.00
Japan	.004924	203.10
Mexico	.04257	23.49
Netherlands	.4297	2.3270
Switzerland	.5149	1.9420
U.K.	2.3360	.4281

* 46% Taxable equivalent 18.33%.

† Bond equivalent.



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